

Fannie, Freddie Get Relief On Affordable-Loan Quotas

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The government yesterday said [Fannie Mae](#) and [Freddie Mac](#) will face no penalty for failing to meet certain federal affordable-housing quotas in 2007 because market conditions made those requirements unattainable.

The two federally chartered mortgage-finance companies, whose ties to the government give them commercial advantages, are required to devote certain percentages of their business to funding loans for various categories of borrowers, such as homebuyers with low to moderate incomes and those in poor neighborhoods.

During the upheaval in the housing and mortgage markets, both companies fell short of two of the requirements last year, the [Department of Housing and Urban Development](#) said yesterday. The companies told HUD months ago that it was unrealistic to expect them to meet those requirements in 2007, and, yesterday, the department agreed.

HUD's decision is part of a larger shift in the government's posture toward Fannie Mae and Freddie Mac. Policymakers have gone from being confrontational to being accommodating in their treatment of the companies -- for example, allowing them to buy bigger loans and operate with thinner financial cushions.

Federal officials are counting on Fannie Mae, based in the District, and Freddie Mac, based in McLean, to help bolster the troubled mortgage market, even as the housing meltdown has strained the two companies. Many investors have said the government would have to bail out the companies if they became insolvent.

HUD's decision yesterday means that the companies will not be required to submit plans for coming into compliance with the quotas they missed. HUD took into account "the financial stability" of the companies, among other factors, the agency's assistant secretary and Federal Housing Commissioner Brian D. Montgomery said in letters dated yesterday to the companies' chief executives.

Both companies have been experiencing heavy losses. They have responded to the bursting of the housing bubble by tightening lending standards and increasing fees, which make it harder for some prospective borrowers to buy homes.

HUD added the quotas at issue in 2004, when it was ratcheting up pressure on the companies to fulfill their mission of promoting affordable housing. At the time, the companies protested that the extra requirements could be difficult to meet, though they were focused primarily on a different challenge from the one they now face. In 2004, the companies argued that high volumes of refinancings for existing homeowners could make it hard for them to fund proportional numbers of loans that met the quotas.

Since then, it has become "increasingly difficult if not altogether impossible for the [companies] to meet these goals," HUD spokesman Brian Sullivan said.

Yesterday's action highlights the continuing tension between the companies' federal mission and their financial interests as shareholder-owned corporations -- between their obligation to extend credit and their need to act in a fiscally prudent manner.

HUD's affordable-housing quotas helped push the companies to invest in subprime loans over the years, adding to the financial market's support for those products.

In public comments last month, Freddie Mac chairman and chief executive [Richard F. Syron](#) seemed to criticize the affordable-housing quotas.

"It is not good public policy to have mission goals that encourage [Freddie Mac and Fannie Mae] to put people in homes that they end up losing," he told [Wall Street](#) analysts. "We have to do things that make sense and will help the economy of the United States," not hurt it by pursuing "what could be unrealistic goals," he said.